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SUBJECT: FSM STATES/NATIONAL LEADERSHIP CONFERENCE URGES MOVEMENT OF ALLOCATED COMPACT FUNDS TO ACTUAL PROJECTS

REF: 02/06/09 E-MAIL WEMHOENER-CUITECJ-NEVILLEPW

**¶11. (SBU) SUMMARY:** On January 29 the FSM National Congress requested the President convene a leadership conference to consider the public infrastructure sector grant. Allocated funds were not moving to actual projects. During the February 4-6 conference, President Mori suspended debate on infrastructure funding and called for a smaller working group to draft legislation which would expedite funding. With the support of conference participants, the President passed the draft legislation to Congress by the morning of February 6. Although immediate tensions on infrastructure related spending appears to have eased, the conference did not address reasons for the initial delays. END SUMMARY.

Congress Calls on President to Host Conference

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**¶12. (U)** Highlighting more than \$100 million in infrastructure grant funds currently available through Compact Funding, but not yet utilized, the FSM National Congress passed a resolution on January 29 requesting the President to host a State/National Leadership Conference by February 4 (Ref). The resolution noted that Congress was concerned about implementation procedures for public infrastructure grants and stated that the purpose of the meeting was to discuss the public infrastructure sector grant and other relevant matters.

**¶13. (U)** Per the resolution, President Emanuel Mori convened the leadership conference on February 4. Approximately 80 people attended. He invited representatives from the national legislature, the governors of each state, and representatives from the Department of Interior and Department of State.

Discussion Starts

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**¶14. (U)** The four Governors, President, Speaker and others agreed that Infrastructure spending was more than just putting up roads or buildings; rather it was the means towards sustainable economic development through secondary benefits. Pohnpei Governor John Ehsa complained that of \$131 million of public infrastructure related funds available since 2004, only \$51 million was obligated to date and only \$15 million spent. Ehsa argued that if the Conference was able to find a way to expedite the funding process, using those numbers, the FSM will be able to support \$260 million in infrastructure projects by 2014. Getting the money moving would be an economic stimulus.

**¶15. (U)** Ehsa quickly moved to his primary complaint: the process is too slow and cuts out the States. The States want to share in the responsibility of making sure the funds get to the projects in a timely manner. Ehsa added that under legislation currently before the National Congress, Pohnpei would receive

\$15 million. That does not cover the full amount for proposed projects, however, and without full funding the State cannot award contracts. The money will continue to languish and projects will not start.

¶6. (U) Chuuk Governor Wesley Simina added that the current funding process is too convoluted. He stressed that it was important to discuss the means to permanently expedite the process and suggested the leaders use a January 5, 2009 letter from Speaker of Congress Isaac Fagir to the President that itemized concerns as a point of reference for discussions. (Note: Post does not have a copy of the letter and is not aware of its contents. End Note.)

Working Group Is Formed

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¶7. (U) Noting some of the concerns raised, Mori commented that it was not time to discuss the implementation problems of the past because "we all know what they are." He then stated that the focus must be on moving the money that is currently available to the projects already approved. Mori finally suggested, and everyone concurred, that a small working group draft legislation he could submit to Congress. The group was composed of members of the larger meeting, including representatives from the States and the Executive Branch. The legislation should immediately release funds that are already available.

¶8. (U) The working group presented a draft bill to the conference during the opening session on February 5 (Ref). Upon reading the draft bill, each governor immediately raised questions on implementation. Yap Governor Sebastian Anafel summarized his concern by asking that once Congress approves the

KOLONIA 00000017 002 OF 002

funding, "Then what?" Previous bills have also approved funding and projects still did not move forward. Chuuk Lt. Governor Johnson Elimo questioned the validity of the dollar amounts given in the bill, to which the President replied that the Congress can review the numbers. Despite the concerns raised, each governor voted to have the President submit the bill to Congress. Ehsa opined that the bill permits the states to act as contracting officers, which will let them work directly to release funds.

¶9. (SBU) Post has also received anecdotal reports that during a scheduled February 6 private breakfast between President Mori and the four governors, each of the governors complained about the working group's proposed legislation. Although Post does not have details of the private meeting, other participants at the conference, including Program Management Unit Special Project Manager for Legal Affairs Dana Smith, questioned the legality of the bill. Legislative Counsel Lam Dang raised concerns about the use of a funding formula, which the United States has rejected, putatively designed to divide funding fairly between the states on an annual basis. Despite the concerns raised, Congress passed the bill on February 7.

Other Agenda Items

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¶10. (U) In addition to discussion on infrastructure issues, Mori drafted an agenda which included the Government of Japan Non-Project Scheme; Airport Improvement Projects; Air/Sea Transportation Issues; Five-Year Compact Review; and other issues. Various representatives from the Department of Transportation, Communications & Infrastructure (TC&I), led by Secretary Francis Itamai, spoke on transportation issues. Regarding airport improvements and the Japan Non-Project Scheme, TC&I described in detail the expected benefits from the outside funding, but noted that the FSM must provide some matching funds. All participants agreed that the FSM (or the individual State governments if appropriate) should make the funds available as quickly as possible.

¶11. (U) Regarding air transportation, the President tasked the Department of Foreign Affairs with trying to entice other airlines to the FSM. TC&I then described the lack of reliable sea transportation through the islands, particularly due to the age and disrepair of the State and federally owned ships. The FSM has only one ship operational for inter-island travel. Following a brief discussion the President tasked the DFA to approach donors with a request to replace or repair FSM's ships. Due to time limitations, the President dropped all other agenda items.

COMMENT

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¶12. (SBU) Towards the end of the Conference Mori noted that the government "got the message" that the money needs to get moving.

In that regard, the national government is likely to release some of the backlogged funds to individual high profile projects such as Phase I of the Chuuk road project. The stated goal of the conference, however, was to discuss implementation procedures for infrastructure grants. On only a few isolated occasions did the Governors appear to raise questions directly related to funding procedures, but when the questions were deflected the Governors did not press further. The bill Congress eventually passed to address immediate funding concerns does nothing to prevent the same problem from arising again. Summarizing the conference's outcomes, Yap Senator Joseph Urusemal stated he feels like Pontus Pilot. We are "washing our hands and letting others decide." His assessment, though colorful, may be accurate. END COMMENT.

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